MONTHLY NOTES

FARM MANAGEMENT AND FARM ECONOMICS

December 1, 1921.

DEVELOPMENTS OF THE MONTH affecting the agricultural situation include:

The proposed cut in freight rates on farm products. Just what this will be remains to be seen. The roads proposed a 10% cut on all agricultural products. This would not have much effect on wheat, corn, and oats since largely absorbed by reductions already made. But now the Interstate Commerce Commission has ordered approximately a 16% cut on grain and hay west of the Mississippi, in effect by December 27. This includes coarse grains at about 10% lower than wheat.

Serious depression in grain prices.

Upward revision in cotton crop estimates, following the report of 7,270,575 bales actually ginned up to November 15.

The Limitation of Armament Conference. It appears that in certain countries this may have some effect on the steel industry, on exchange rates, and indirectly on the general economic situation.

The strike of milk wagon drivers in New York, - a temporary handicap to the dairy industry of four states.

WHOLESALE PRICE INDEXES FOR OCTOBER, as made up by the Bureau of Labor Statistics, are as follows, 1913 being the base or 100. (September figures also given for comparison):

Farm Products

	Sept.	Oct.
Cotton	160	154
Corn	86	75
Wheat, No. 1, No.	149	142
Hay, Timothy No. 1	143	137
Steers (good to ch.)	98	104
Hogs	95	95
Eggs, N. Y.	158	193
Milk, N. Y.	195	222
Potatoes	250	186
Wool, medium	99	99

Commodity Groups

	Sept.	Oct.
Farm products	122	119
Food, etc.	146	142
Cloths & clothing	187	190
Fuel & lighting	178	182
Metals & met. products	120	121
Building materials	193	192
Chemicals, etc.	162	162
House-furnishing goods	223	218
All commodities	152	150

THE TREND OF PRICES during October was again slightly downward. Farm products are once more the worst off of the commodity groups. With the rise in textiles and fuel, the situation once more appears no nearer stabilization than it has for two years past.

When one studies current price levels, it seems apparent that the present unbalanced state of things is essentially a disparity in wages. The farmer is a workman (who also owns his tools of production.) The labor income of farmers universally reflects this fact. Farmers, moreover, are competitive producers. They cannot throw up the sponge at every disappointment, because always in the background loom taxes, interest, and fixed expenses to be met. Less cotton acreage means more corn. Less corn means more of something else. So while the industrial laborer strikes to keep his wage up, the farmer takes his medicine in shrunken prices. He ultimately becomes the stabilizer by reason of having been the victim.

UNCLE JOHNATHAN IS GETTING CASH RENT OF 3.54% on his farm valuation. At least that figure represents the ratio of cash rent to land valuation on 158,000 cash rented farms reported in the 1920 census. The average value of these farms was $16,950 and the average rent $600. The average valuation per acre was $154 and rent per acre $5.45. The Division of Land Economics of this Office has just issued a preliminary report on this question.

Incidentally, Uncle J. has had a rise in land valuation since 1850 of 2% a year compounded. This has helped to piece out the low rent returns. Here is an interesting problem in land tenure, since land values may not increase forever at a 2% rate.

OUR HAT IS OFF TO CALIFORNIA. In the Census report of the fifty leading agricultural counties (highest in value of products in 1919), California had five out of the first eight. Los Angeles County led off with 71½ million dollars worth of fruit, hay, nuts, etc.

OUR MEAT EXPORTS ARE REALLY INCREASING THOUGH SHRINKING IN VALUE. The first nine months this year we exported 1,461,969,107 pounds meat and meat products; same period last year 1,268,672,870 pounds. This is an increase of 13%. Exports September this year were 41% greater than September last year.

Here is a matter worth keeping an eye on. Wise men plan production with price tables in one hand and consumption figures in the other.

EXPORTS IN GENERAL ARE SLOWING UP, while imports are gaining at a faster rate. Mr. O. P. Austin of the National City Bank tabulated fifty principal articles for the first seven months of this year and last. Exports show an increase of 2.2%; Imports an increase of 16%.

Wheat exports increased 105%, corn 644%. Cotton exports declined 11%. These figures are all quantity, not values. The values all declined.

SIGNS OF DEFLATION:

A billion dollars reduction in Federal Reserve notes since last year.

More than $1\frac{1}{2}$ billion reduction in bank deposits since last year.

Lower interest rates. The last issue of Government short-term notes was put out at $4\frac{1}{4}$ instead of 5% interest. They sold readily. Bond prices have advanced in line with lower interest rates.

Wage reductions. Cuts have been made in the packing industry, railroads, automobiles, and other leading industries. More wage reductions are inevitable shortly.

Are we finally headed back the long road toward a 100 cent dollar?

66% OF THE 94,000 FARMS ARE RUN BY TENANTS in the Black Land prairie of Texas. Here is a tenant problem in earnest! Mr. J. T. Sanders of the Division of Land Economics, this Office, has made an interesting study of it.

Since 38% of the farms of the United States are likewise operated by tenants, it behooves us to look ahead to the time when we shall want some intelligent guidance in our policies respecting this question.

Mr. Sanders' bulletin, among other things, goes into the significant factors that influence men in accumulating from their earnings -- which of course underlies the whole matter. On the whole, this looks to be one of the important tenancy studies in the country.

THE FARM MANAGEMENT MOTION PICTURE we hoped to make is in the discard for the winter at least. We did get so far as a scenario and one day of picture-making. And there she stuck! This picture business has broadened our horizon of obstacles and enriched our experience of delay - but come spring, we shall attempt to give the tale one more twist!

RELATIVE PURCHASING POWER

(At October 1921 Wholesale Prices)

In terms of:	Of a Unit of: Cotton	Corn	Wheat	Hay	Potatoes
All commodities	103	50	95	91	124
Cloths, etc.	81	39	75	72	98
Fuel, etc.	85	41	78	75	102
Metals, etc.	127	62	117	113	154
Bldg. materials	80	39	74	71	97
House-furnishing goods	71	34	65	63	85

	Steers	Hogs	Eggs	Milk	Wool
All commodities	69	63	129	148	66
Cloths, etc.	55	50	102	117	52
Fuel, etc.	57	52	106	122	54
Metals, etc.	86	79	159	183	82
Bldg. materials	54	49	100	116	52
House-furnishing goods	48	44	89	102	45

THE PURCHASING POWER OF FARM PRODUCTS DOES NOT IMPROVE. It shifts, but does not improve. Last month it slipped back a little lower than it was in September. What a commentary on the present disparity between producers when a bushel of corn, - which is to agriculture what iron is to industry - will buy one-half as many things as it would in 1913! And in the above figures we do not show the full plight of the farmer. To do that we should reckon purchasing power on the basis of the price actually received at the farm and in terms of the manufactured articles for which farmers actually have to exchange their products. The above figures, based on wholesale prices, only show the trend, which is our purpose.

At October prices, milk, eggs, and potatoes had the highest purchasing power of the group shown. Corn had the lowest. Roughly speaking, this might be taken to indicate on advantage of eastern over western producers.

A NEW BULLETIN YOU WILL BE LIKELY TO WANT is the "Handbook of Foreign Agricultural Statistics," compiled by Mr. Frank Andrews. It is a mighty good reference. Ask for Department Bulletin 987.

NOTES ON THE EUROPEAN SITUATION

Ordinarily Europe has been the capacious maw of the western world. Crowded within its boundaries are more than 350,000,000 people, excluding Russia. Every time the sun rises each of these millions of persons resumes the consumption of so many pounds of food, of so many yards of cloth, of so much shoe-leather, of so much fuel, and metal, and chemicals, and the thousand and one things that human beings require for existence.

Outlying over the face of the earth are lands with greater powers of production and fewer people of their own to feed, which normally send their surplus speeding toward Europe, the Consumer. This stupendous, concentrated vortex of human need puts fast ships on the seas, hastens endless trains of freight, moves men to plow and mine and produce out in the four corners of the earth. To Europe come the worlds' surplus raw materials, and in return she sends out her surplus of manufactured products. Such, roughly, is the world's great marketing scheme under normal conditions.

Here in the United States, there is hardly a corner of the land where we have not felt the pull of this European vortex. It takes half our cotton crop, a fourth of our wheat crop, a seventh of our meat products in which the vast corn crop is marketed, and so on. We have lately been exporting upwards of a billion dollar's worth a year of packing house products, ditto of cotton, ditto of grain and grain products, - a good share of which went eastward over the Atlantic.

It is a curious economic fact that the price at which a surplus of any given commodity can be sold quite often becomes the going price for practically the total supply of that commodity. Products that enter a world market get their price from what the world will bid therefor, - and it is only somebody's surplus that is bid on. If I have 1000 bushels of wheat more than I need to eat, and some Englishman will give me a thousand dollars for it delivered at port, then the wheat I eat or sow or sell to my next door neighbor all has a value in my eyes of about a dollar a bushel, less carrying charges to port.

So it has become borne in upon us that there is a good deal of connection between prices of our wheat and cotton and hogs and the demands of Europe for those same things.

There are still over 350,000,000 people between the Atlantic and Russia's western edge. They still eat something. They still wear something. But, unfortunately, they are not able to reach out over the world and buy its surplus on the same old scale. They are impoverished.

Meanwhile our warehouses have choked with good cotton; we have held over corn that would have fattened countless pigs; wheat growers have sold their grain for considerably less than cost of production. Not that Europe is our only market. Far from it. But we have for many years gauged our production with her demands in mind, nevertheless.

Europe is in Debt

We stand now in the peculiar position of great producer and at the same time greatest creditor. Omitting about a billion dollars of accrued interest, Uncle Sam has governmental debts on his books as follows:

Great Britain	$4,166,000,000	Austria	$24,000,000
France	3,351,000,000	Greece	15,000,000
Italy	1,648,000,000	Esthonia	14,000,000
Belgium	375,000,000	Armenia	12,000,000
Russia	193,000,000	Finland	8,000,000
Poland	136,000,000	Latvia	5,000,000
Czechoslovakia	91,000,000	Lithuania	5,000,000
Serbia	51,000,000	Hungary	5,000,000
Roumania	36,000,000		

In addition to the above ten billions, Europe owes our banks and business men private debts of more than three billions. This makes no mention of the countries that owe big sums to England and France. Neither does it include Germany's reparation debt of over $30,000,000,000.

This creditor position of ours is not exactly unprecendented; before the war the world used to owe the people of Great Britain around twenty billion dollars. But all this is one indicator of reasons why Europe is likely to walk the road of rigid economy for some time.

Foreign Exchange

Europe has not only been buying much more goods of us than she has been selling to us - that is, not only has the balance of trade been against her. At the same time, she has printed paper money so fast that her currency is thinly diluted. We speak of it as inflation, and have had some mild experience therewith here at home.

The important international result of this is a near collapse of the institution known as foreign exchange. When so many marks or francs have been issued that the purchasing power of each has fallen low, then of course it takes many more marks or francs to buy what a dollar will now buy, since the dollar has not been anywhere near so depreciated by inflation. In other words, many more marks or francs must be exchanged for a dollar, when a Frenchman or German wants to buy something in America. There are other factors, of course, entering into foreign exchange, but the result is what interests us. Prior to the war the British pound exchanged at parity for about $4.87. Picture the difficulties confronting a Manchester spinner who had to buy 40 cent cotton in America a year ago and pay for it with pounds worth only $3.60.

The case of the Englishman is easy compared with most of the rest of Europe. French or Belgian francs worth at par 19.3 cents are now exchangeable for a little over 7 cents. German marks used to be worth roughly 24 cents; now it takes around 200 marks to buy a dollar. The Italian lira, at par 19.3 cents, is exchangeable for about 4 cents. So it goes. If a Chicago man were to land in New York some morning and find his money worth about thirty cents on the dollar, it is pretty certain that he would do without practically everything except his breakfast. That is, unless adjustment of prices had been made to a nicety that does not yet exist between nations.

Gold

But the depreciation in foreign money bespeaks more fundamental difficulties. Money is only a token. Its value arises from the wealth it represents.

Ordinarily gold is the basic token exchangeable between nations. The countries of the western world were normally "on a gold basis." Paper money was easier to carry about and use than gold, but was usually redeemable in gold. Back of the paper money was the gold, and back of the gold was some kind of tangible wealth.

Gold is still the valuable token, for it still is backed by plenty of real wealth in much of the world. Moreover, there is only so much gold on top of the earth. The supply cannot be conveniently doubled or trebled by a printing press.

Europe might, then, buy goods of us with gold, if only she had more of the precious metal. The difficulty is that we are so heavily a creditor already and gold has been flowing to us until the vaults of the Assay Office in New York are now jammed with the influx. Since January 1 this year 61 nations have sent approximately $600,000,000 in gold to the United States. We have now upwards of half of the world's stock of gold. This is double the share that we used to have before the war (then about 23% of the total). Some index of European holdings is reflected in estimates made on central bank reserves. These roughly give England 12%, France 11%, Germany 4%, Italy 3%, of the world total.

Goods

Not having the gold, Europe might buy of us and pay in goods. This, in fact, is the way world trade is carried on in the long run. In some fashion every nation tries to balance up its goods and services sold against those bought.

But having commodities to sell presupposes production. The wheels of industry must turn. And in Europe the wheels of industry are sadly out of gear and clogged. For industry to thrive, there must be an assurance of peace. Then there must be raw materials available, but it is raw materials that Europe most needs from us now. Then the machinery of credit and transportation and trade must be set up so it will function. It is a circle of limitations.

Progress has been made in resumption of food production. Men must eat before all else. Even in Central Europe, upheaved and disrupted as it has been, the farmers are surely at work. The fertile plains of Hungary (comparable to our Iowa) yielded over 42,000,000 bushels of potatoes and 46,000,000 bushels of wheat this year. The flour mills at Budapest - second to Minneapolis - are intact and doing business. All of this in the face of political dismemberment, Rumanian invasion, almost complete paralysis of transport, loss of farm machinery, and labor shortage. This is significant of what can happen when the vast Ukraine country is again in shape. Excluding Russia, this year's wheat production in Europe is 27% greater than last year; of rye 39% greater.

These efforts at food production are of first interest, from our standpoint. The immediate effect may be to dull the keen edge of demand for our wheat. The ultimate effect will be nothing but good - if we consider a revived world to be to our economic advantage. Food is the first consideration. It must clear the way for any possible production of goods that can re-establish the currents of world trade.

The Outlook

Europe is impoverished. She has lost no small part of her readily available wealth. Her machinery of production along with her political systems are disorganized and demoralized.

Bur there is one fundamental fact which must not be lost sight of. Europe still has a large population, - so large, in fact, that its existence for a generation past has perhaps been made possible only by reason of a tremendously effective industrial machine which has been run at top speed. Conditions in Russia suggest that much of Europe was within two or three years of economic exhaustion at the time of the Armistice. Its large population could not stand it much longer with the great industrial machine geared to destructive effort on so enormous a scale.

As it is, there is not enough left to go around. Millions of people are doing without. They are doing without clothes and shoes, without fuel, without furniture, without building material, almost without food. The United States Chamber of Commerce Committee reported that the best European economists placed the present consumption of over 300,000,000 people at 30% of their pre-war consumption. That is what a man does when he is out of money and out of work - he goes without!

Europe's great population, however, is perhaps the most stabilizating factor in the situation. Here are millions of men and women who cannot and will not be left to starve; who know how to work and work effectively; who have more than a meager understanding of decent standards of living; who can produce leaders capable of organization. The steady, irresistable pressure of those millions for goods and materials will burst through many barriers of a disrupted commerce. For even if we conceive that the population of Europe has approached one of those eras of limitation set forth by Malthus, it will not mean elimination of the present generation. The great pool of humanity is still there. There remains for it to set in motion some of the old currents of production, in which event we shall very likely feel again the pull of the vortex for our surplus.

It does not seem that we should contemplate as yet any radical changes in American farm management because of European conditions. Their demand for import wheat is lessened, but so is the supply. Russia used to furnish 150,000,000 bushels of the 400,000,000 bushels that western Europe normally imported, and Russia is not in the running at present.

Whether Europe can take her share of our normal cotton surplus of 7,000,000 bales during the next five years is a question. A good deal depends on both England and Germany. Probably many southern growers will feel it good policy to attempt a somewhat more diversified crop system that has been done in years past.

There is reason to believe that the whole western world has drifted toward a shortage of animals. This has begun to make itself felt in America in occasional statistics of breeding stock and in exports. This is a matter which should be calculated on at least five years into the future. With grain production and prices as they are relative to live stock, it would seem good policy for the variously adapted sections of this country to slowly increase the numbers of hogs, beef cattle, sheep, and horses.

In general, the European situation does not warrant us in making any great shifts until we know more about it. There is no man today who can say definitely what will happen. No small part of Europe is broken, unsettled, impoverished territory. Whether it will be pulled together and exhibit a marvelous recuperation within a few years time, or whether it is headed for a protracted era of political, economic, and social darkness, nobody can tell for certain. It is to be hoped that it will be the former. The American farmer is still producer of a surplus in most years. We have depended on Europe to take the surplus - its production has been prompted directly by her needs. If the European market were to be even temporarily lost to us, it would be likely to mean the re-shaping of some of our most important lines of farm management.

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